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SUBJECT: SCENESETTER FOR SENATOR LUGAR'S AUGUST 24-25 VISIT
TO AZERBAIJAN

Classified By: AMBASSADOR ANNE E. DERSE, REASONS 1.4 (b,d)

¶1. (C) SUMMARY: Embassy Baku warmly welcomes Senator Lugar back to Azerbaijan. This visit comes at a particularly critical time, during the ongoing Georgia-Russia conflict and in the wake of several public USG-GOAJ bilateral disagreements. While the GOAJ, and President Aliyev in particular, has limited its public statements over the crisis in Georgia, in private, GOAJ officials, including the President, have expressed solidarity with Georgia, condemnation of Russia behavior, and anxiety over what the episode means for Azerbaijan, especially in terms of oil and gas exports and negotiations over Nagorno-Karabakh. Your visit will be an opportunity to underscore that the USG is committed to security and stability in the Caucasus, including to Georgia's independence, sovereignty, and territorial integrity, and that we urge all nations including Azerbaijan to continue to call for Russia to withdraw its troops immediately and contribute to restoring regional stability. Meanwhile, Baku is still sensitive with respect to the decision of the United States (and other Minsk Group partners) to vote against a UNGA resolution on Nagorno-Karabakh, sponsored by Azerbaijan, in March and has expressed concern about our promotion of democracy and human rights, which Azerbaijan's leadership maintains is not regionally balanced or consistent. END SUMMARY.

Georgia Crisis--Azerbaijan,s Energy Exports Affected

¶2. (C) To date, Azerbaijan's leadership has said very little publicly about the Russia-Georgia crisis, in part because President Aliyev was out of the country until just recently. In private, however, GOAJ officials have conveyed grave concerns to embassy officials and other Western observers. The most immediate issue for Azerbaijan is the effect the crisis has and could continue to have on the energy sector. Infrastructure damage, resulting from Russian military actions in Georgia, is a major concern for Azerbaijan. A previous explosion and fire along the Baku-Tbilisi-Ceyhan (BTC) pipeline in Turkey temporarily halted oil exports along that route. The crisis in Georgia closed off other options for oil transport. Technicians are reviewing BTC, with repairs expected to allow resumption of up to 450,000 barrels per day of exports soon, and corresponding increases in production at the ACG offshore fields. Prior to the BTC fire, Azerbaijan had been exporting about 900,000 barrels per day through BTC.

¶3. (C) The Baku-Supsa (Western route) oil pipeline remains closed in Georgia for security reasons. Oil is not flowing from Baku-Batumi (Georgia Black Sea) by rail because Russia destroyed a railroad bridge near Tbilisi. (Russia probably attacked the bridge because it was viewed as a military

target, i.e., an artery for Georgia to move troops across the country.) Georgian railway damage has also stopped crude oil shipments to the Kulevi Port, in which Azerbaijan is heavily invested, and exports of refined products to Poti (also on Georgia's Black Sea post). On a more positive note, the Baku-Novorossiysk (Northern route) oil pipeline through Russia is functioning at full capacity. However, it is only partially compensating for the loss elsewhere, and is dependent on Russia as operator. At this time, about 80,000-100,000 barrels per day of Azerbaijan's oil are moving to Russia's Black Sea coast via Baku-Novorossiysk. The Shah-Deniz offshore natural gas field and the South Caucas natural gas pipeline are now operating nearly at pre-crisis levels, with natural gas moving from Azerbaijan to Georgia and Turkey.

Azerbaijan,s Anxiety over Georgia

¶4. (C) GOAJ,s muted reaction to the Georgia situation is in part an effort to avoid Russian retaliation against Azerbaijan interests. GOAJ sees Russia not only as a potential threat to its economic viability but also, like Georgia, to its independence, sovereignty and territorial integrity, particularly in view of disagreements over Nagorno-Karabakh. Azerbaijan has announced roughly USD 400,000 in humanitarian assistance for Georgia and has pledged to help Georgia repair parts of its infrastructure, including a railroad bridge that was partially destroyed near Tbilisi. Similarly, President Aliyev has stated that Baku will work with the large ethnic Azeri population in southern Georgia to bolster support for Tbilisi. At the same time, Azerbaijan's leaders have called for the United States,

Europe and NATO to take concrete steps to bolster security and stability in the Caucasus. Azerbaijan, however, will have to attempt to balance its heartfelt support for Georgia and Tbilisi's struggle with Moscow with Azerbaijan's critical need to export oil and gas and the reality that Azerbaijan has critical interests, both socially and economically, in Russia. Much Azerbaijani capital has made its way to Moscow, and large numbers of ethnic Azeris live and work in Russia, sending salaries back to Azerbaijan to support family members.

USG-GOAJ Security Cooperation

¶5. (C) Security cooperation is one of the strongest aspects of our bilateral relationship. In your meetings with President Aliyev and senior Azerbaijani officials, it would be helpful to thank them for their strong support in Iraq and Afghanistan. In terms of the latter, President Aliyev announced in principle in April Azerbaijan's plans to double its peacekeeping forces in Afghanistan from 45 to 90 troops and provide new training programs for Afghan security forces as well as increase its civilian support. Azerbaijan is also participating in NATO's Partnership for Peace and working to bring its armed forces to NATO standards through its second NATO Individual Partnership Action Plan (IPAP). Azerbaijan's leadership may tell you that the ongoing Nagorno-Karabakh conflict and Section 907 of the Freedom Support Act, which in the past has limited U.S. assistance to the country, restrain our cooperation. Since 2001, however, the U.S. Congress has granted President Bush the authority to waive Section 907 on national security grounds, and the President has done so on an annual basis.

Nagorno-Karabakh

¶6. (C) The Nagorno-Karabakh (NK) conflict remains Azerbaijan's top domestic and foreign policy priority, and the sole issue that unites Azerbaijani citizens across the political spectrum. Azerbaijanis seek the return of Nagorno-Karabakh and the seven surrounding territories, which they lost during a late 1980s-early 1990s conflict with Armenia, and the right of the estimated 800,000 refugees and internally displaced persons to return to their former homes.

From Baku's perspective, any solution to the conflict must preserve Azerbaijan's territorial integrity; NK cannot become an independent state. The GOAJ's position on NK is that Armenia must return the region to Azerbaijan's control, and, in return, Baku promises to grant NK and its majority Armenian population the highest possible degree of autonomy.

17. (C) The GOAJ and its people are increasingly pessimistic the OSCE Minsk Group (U.S., France, Russia) established in 2004 to find a peaceful solution to the NK conflict will succeed. They further believe the international community, including the USG, should pressure Armenia for a solution consistent with Azerbaijan's territorial integrity. Azerbaijan is particularly critical of the US Congress for what it says is unjust favoritism of Armenia over Azerbaijan.

The Azerbaijani Government was extremely disappointed by the Co-Chairs' "no" vote on Azerbaijan's UNGA resolution regarding Nagorno-Karabakh and continues to express its concerns in public and private fora, particularly to U.S. interlocutors. Embassy does not believe Azerbaijani frustrations over NK will diminish soon. We, however, may see a lull in official public criticism as the GOAJ evaluates the Russian- Georgia crisis and its impact on the NK conflict. GOAJ may not be willing to escalate the NK situation if it means facing the ire of Russia.

Promoting Reform is Tough Work

18. (C) Getting the GOAJ to undertake substantive political and economic reform is an ongoing challenge that mirrors difficulties in most other post-Soviet states. Pressing for reform is particularly difficult in Azerbaijan. With GDP growth of 25 percent in 2007 and with GOAJ officials benefiting most from the boom, there is little incentive within the government to change course. Embassy continues to press GOAJ at all levels to commit to serious reform and also provides technical assistance to help Azerbaijan, primarily through USAID's Trade and Investment Program, democracy and governance program, anti-corruption programs and rule of law activities as well as an initiative to strengthen the GOAJ's

consolidated budgeting process. Moreover, we believe the World Trade Organization (WTO) accession process, for which we are providing technical assistance, is the key vehicle through which we can promote implementation of successful economic reform that will keep Azerbaijan's development on a stable path.

Upcoming Elections

19. (C) In recent months, Azerbaijan has increasingly pushed back on our efforts to promote democracy and human rights. Azerbaijan's leadership maintains our policies in these areas are not regionally balanced or consistent. Embassy also believes Azerbaijan is more resistant to US and European pressure because it feels more comfortable as it continues to gain economic strength and geopolitical importance.

110. (C) The October 2008 presidential election, however, presents a tremendous opportunity for President Aliyev to burnish Azerbaijan's democratic credentials and promote its integration with the Euro-Atlantic community by allowing the opposition, civil society and the media more political space and a freer voice to express opinions and concerns without fear of reprisal. The Embassy, in conjunction with its European partners, are engaged in these issues, underscoring to the government and the public U.S. support for the government's stated goal of free and fair elections. We highlight that our focus is on the process and not the result; that is, that the USG does not support individual candidates or political parties.

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